TRADE UNION STATEMENT
To the G20 Finance Ministers and Central Bank Governors' Meeting

Shanghai
26-27 February 2016

On the occasion of the G20 Finance Ministers and Central Bank Governors' Meeting, the International Trade Union Confederation (ITUC) and the Trade Union Advisory Committee to the OECD (TUAC) – representing the international component of L20 – would like to outline concerns on the economic situation and call for actions by G20 members to stimulate growth and employment, and deliver on past G20 policy commitments.

Stagnant growth and increasing unemployment

The latest OECD forecasts[i] show that global GDP growth this year will be no higher than in 2015 – already in itself the slowest growth in the previous five years. The G20 in 2014 committed to raise G20 GDP by 2.1 % above the trajectory implied by then policies over the coming five years. The G20 is off-target. Seven years on amidst the slowest recovery to date, the global economy has now been hit by a series of interrelated and mutually reinforcing shocks. China, until now a major source of global demand for global equipment and commodities, is moving to a different model of growth, resulting in significant international demand changes. On top of this, capital flows are destabilizing many emerging economies as markets react to the US Federal Reserve decision to raise interest rates and to restrict liquidity growth.

Meanwhile, moves by other central banks into the unchartered waters of negative interest rates have backfired with increased market volatility, risky bets by institutional investors "in search for yields" and the impacts of negative interest rates for the banking sector. Despite the post-2008 G20 commitment to reform the financial system and the action plan by the Financial Stability Board, banking and financial market regulation remains unfinished business.

These shocks come at a moment when the global economy is still digesting the consequences of the previous financial crisis and cannot afford another growth slowdown. In some economies, economic recovery has barely started. Meanwhile, the ILO projects global unemployment to rise in both 2016 and 2017[ii], with participation rates in some economies still below pre-crisis levels. The longer unemployment und underemployment remain elevated or continues to rise, the greater the risk that it becomes "structural" due to scarring effects.

The fact that inflation has now become so low is extremely worrying as that the slightest negative economic shock will tip 'close to zero inflation' over into outright deflation. The current policy stance of relying upon monetary policy alone to keep the global economy afloat is not working. Fiscal austerity and the weakening of collective bargaining institutions have suppressed wages and living standards. This has contributed to the risk of deflation. It is also heavily complicating the task of central banks in re-anchoring inflation expectations.

Action for Comprehensive Growth and Quality Jobs

The ITUC and TUAC are calling for fast-acting and comprehensive measures to boost aggregate demand and reduce inequality. To prevent a relapse into a new crisis, a collective and coordinated demand stimulus from and in G20 economies is urgently needed. In taking action, governments should:

- Refrain from competitive devaluations by setting up a mutual coordination mechanism managing their exchange rates.

- Adopt a new, expansionary strategy on fiscal policy: The OECD in its recent interim forecast has shown that an increase in public investment will boost demand, strenghten short-term growth, support future growth and improve the sustainability of public finances.

- Refocus fiscal and monetary policies as liquidity created by central banks should not be left to the markets but adequately managed. Instead of sliding into new forms of speculation and asset bubbles, liquidity should be channelled directly into increased public investment in infrastructure, networks, innovation, job creation and skills provision, creating a productive asset that matches the government's liabilities.

- Support stronger labour market institutions (including collective bargaining, wage setting mechanisms, labour legislation) in securing higher wage growth as a way to avoid zero inflation from becoming entrenched through very weak wage agreements, to re-anchor inflation expectations and, as agreed by the G20 under the Turkish presidency, as a tool to address rising inequalities and the falling labour income share.

Such a policy package would have the support of working people and would require close consultation of government with the social partners.

Step up the Momentum for Banking Regulation, Long term Investment, Infrastructure Finance and Tax

While urgent action is required to revive growth, the G20 Finance should also step up the momentum on financial regulation and other on-going initiatives on investment and tax. The OECD interim economic outlook points to an impeding risk of rising financial volatility. As of now, opacity over the balance sheets of global banks remains. Too-big-to-fail financial institutions are still in place despite pledges to the contrary[iii]. Uncertainty remains about the growth of the shadow banking sector, whose size and corresponding risks are in fact not entirely known at this point[iv].

The G20 should also deepen international cooperation to promote long term investment in financial markets, including in infrastructure finance. On tax evasion, Finance Ministers should ensure a truly inclusive framework for the implementation phase of the OECD BEPS package.

This requires actions from the G20 including:

- A reassessment of the financial reform agenda on what has worked in the past seven years, and what remains to be done. Regional harmonisation – most notably in Europe – and structural reforms in the banking sector should be enhanced to effectively end too-big-to-fail groups and set conditions for a banking sector that can work for and finance the real economy.

- An effective implementation of the G20/OECD High Level Principles of Long-Term Investment from 2013 with a stronger emphasis on accountability of asset managers and other financial intermediaries (notably over remuneration and risk) and on mainstreaming responsible investment practices (by integrating environmental, social, tax and governance risks).

- Public investment as a first choice in mobilising finance for infrastructure and a just transition to a low-carbon economy – as the public sector is better suited to handle long term risks. Institutional investors with long term liabilities have an important role to play as well, including not-for-profit industry-wide pension funds. It is of crucial importance to ensure transparency and fairness whenever public money is used to support private initiatives which is likely to happen in green and infrastructure investments.

- Ensuring an "equal footing" for developing countries in the implementation of the BEPS package of measures to tackle aggressive tax planning schemes through an "inclusive framework" as called for

at the Antalya Leaders' Summit. In order to meet these expectations, a new "Global Forum on BEPS" should be created, with governance arrangements that are similar to the existing Global Forum on Transparency and Exchange of Information.

[i] OECD Interim Economic Outlook, 18 February, 2016, http://www.oecd.org/economy/outlook/economicoutlook.htm
[ii] ILO World Employment and Social Outlook, January, 2016
[iii] FSB 2015 update of list of global systemically important banks (G-SIBs) http://www.fsb.org/2015/11/2015-update-of-list-of-global-systemically-important-banks-g-sibs/
[iv] FSB Global Shadow Banking Monitoring Report 2015 http://www.fsb.org/2015/11/global-shadow-banking-monitoring-report-2015/